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Statement by
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before the
Committee on Agriculture, Nutrition, and Forestry
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Mr. Chairman, I appreciate the opportunity to appear before this Committee to present the Administration's position on H.R. 3398, a bill to increase target prices for the 1979 wheat and feedgrain crops and other proposals.

The focus of this bill is our system of target prices--the economic safety net the public provides to protect farmers from the disastrous consequences of low commodity prices. These income protections are essential to this Administration's agricultural policy, but the target price system is not our only policy tool. It is but one of several. And, as we consider important changes in the target price system, we must evaluate those changes carefully in terms of how they relate to the purpose of target prices, and in terms of how such changes would affect the function of target prices as a policy tool.

The Carter Administration agricultural policy is, basically, a reserves policy. Farmers hold reserves when weather and crops are good. They sell those reserves when crops and production are less favorable, and when prices are higher. Programs of reserves for wheat, feedgrains, and rice have been established. Others may be if the circumstances require them.

When market prices are below the levels needed to bring long-term capital investments into agriculture, the reserves are opened and grain can flow in. If short-term production exceeds reserve needs, set-aside programs are re-instituted. If set-aside programs are insufficient, diversion programs are offered.

When market prices rise above the levels needed to bring long-term capital into agriculture, the reserves are released and farmers who choose to sell can do so at a profit--profits that come not from the government, but from the market. Farmers are free to plant the crops they choose, unrestricted by government allotments. And, once the reserves are released, farmers are free to sell when they choose, or to not sell depending on their private interpretation of economic trends.

Within this policy, commodity loans serve mainly to help permit farmers to take advantage of their expectations of favorable markets. Loans do serve as a market of last resort. But, they do not establish the price even in periods of good weather as they once did.

And, within this policy, target prices serve as a basic income protection--a floor on income to prevent an economic disaster in the same sense our crop disaster programs are intended to guard against production disasters.

In the context of this policy framework, I want to cover three main points today: First, that our reserves policy is well established and it is working very well. I want to describe briefly what we have accomplished and what I expect we will accomplish in the future.

Second, I want to tell you why a reserves policy means both higher prices and higher incomes for farmers than a "guaranteed incomes" policy based on extremely high target prices. And, third, I want to comment specifically on the provisions of H.R. 3398.

The Reserves Policy is Working Well.

When the Carter Administration took office on January 20, 1977, we inherited a rapidly deteriorating agricultural economy. Following the poor harvest and high prices of 1974, the harvests in 1975 and again in 1976 were record large. The trend was again toward large and mounting stocks. Prices were declining. Farm incomes were being eroded, not only by lower gross receipts but from increasing costs.

By late January 1977, the policy and program decisions for 1977 had already been made in the fall of 1976 by the previous Administration. Loan prices for wheat and feedgrains had already been announced, and target prices established under the 1973 Act.

By the spring of 1977, the prospects for large 1977 crops appeared more and more favorable, and the price situation deteriorated still further.

On April 4, 1977, well in advance of the new 1977 Farm Bill, this Administration took several important actions. We announced a farmer-owned wheat and rice reserve program for the 1976 crops. This included:

- a three-year extension of loans for 1976-crop wheat and rice, annual storage payments to farmers of 20¢/bu. for wheat and 65¢/cwt for rice.
- increased feedgrain and soybean loan rates:

Corn	from $1.50 to $1.75	Oats	from $ .72 to $1.00
Sorghum	from $1.43 to $1.70	Rye	from $1.20 to $1.50
Barley	from $1.22 to $1.50	Soybeans	from $2.50 to $3.50

- lowered the commodity loan interest rate from 7-1/2 to 6 percent.

- liberalized the farm storage facilities loan program: the interest rate was reduced; the maximum loan amount was raised; and only one-half the previous downpayment was required.

Both the Administration and the Congress were working to develop legislation to replace the expiring 1973 Agriculture and Consumer Protection Act. The highest priority was to develop new authorities to meet rapidly changing economic conditions. We were trying to develop, as Secretary Bergland so aptly stated, "a policy for all seasons."

The forces leading to the 1977 farm price slide could not be reversed until the new policy took effect. The 1977 wheat crop was a very large 2.036 billion bushels. Market prices fell below the loan price in many areas of the country, to $2.03 and $2.04 in June and July. Stocks accumulated to 1.177 billion bushels.

The feedgrain harvest was also huge--a record 203.4 million metric tons (mmt). Stocks increased to 41.3 mmt (from 29.9 mmt), and corn prices dropped to a monthly low of $1.60 in September 1977.

When the year was over, net farm income was $19.8 billion, up only very slightly from the previous year, with any increase largely due to improved livestock receipts. The result was very strong pressures in the fall of 1977 and the spring of 1978 to move quickly to a "guaranteed incomes" program based on very high target prices and major production curtailments. However, the Congress and the Administration resisted those pressures and continued to work together to implement the new Farm Bill. This cooperation prevented the situation from being worse than it was and laid the foundation for subsequent recovery.

- o The wheat and rice reserve strengthened prices as farmers began isolating substantial amounts of the abundant 1977 crop from the market. By the end of 1977, farmers had placed some 55.8 million bushels of wheat in the reserve--prices had risen from the low of $2.16 per bushel in September to $2.47 in December as the reserve grew in size. (See attached table.)
- o Anticipating new authority in the 1977 Farm Bill, the Adminstration announced on August 29, 1977, its plan to form a 30 to 35 mmt food grain (wheat and rice) and feedgrain (corn, sorhgum, barley and oats) reserve. And, on December 6, 1977, we expanded the reserve to include both the 1976 and 1977 crops of wheat and feedgrains. These actions immediately bolstered the market. Corn prices increased from $1.60 in September to $2.24 by April of 1978 in spite of the large harvests. Without the reserve, they would undoubtedly have been much lower.

The 1977 Act also increased target prices for 1977 grain crops (see table below).

1977 Crop Target Prices

	Set by the 1973 Act	Revised by the 1977 Act
Wheat	$2.47	$2.90
Corn	1.70	2.00
Sorghum	1.62	2.28
Barley	1.39	2.15

The increase in the wheat target price provided an additional $700 million in direct payments to wheat producers. On December 1, wheat growers were mailed checks for $500 million of the $1.2 billion total they eventually received. Sorghum producers received $325 million in direct payments and barley producers received $208 million.

The new authorities in the 1977 Act were the basis for the grain programs for the 1978 crops:

- o A 20-percent set-aside for wheat and a 10-percent set-aside for feedgrains.
- o Early entry of 1977 crop wheat, barley and oats into the grain reserve (farmers could place this grain directly into the reserve without waiting for the standard 9-month loan to mature.)
- o An increase in the farmer-owned reserve feedgrain storage payment from 20 to 25 cents per bushel. Further expansion in the farm storage facility loan program.

In 1978, grain crops were again record large. But, as the agricultural policy of this Administration began to take full effect, the economic situation for farmers was vastly different from the previous year.

- o Cash receipts from crops rose 20 percent; livestock receipts rose 13 percent. Net farm income in 1978 was $27.9 billion, the second largest on record, and a 41-percent increase over 1977.
- o Direct payments of $866 million were made to wheat and feedgrain producers, and $62 million to rice producers.
- o the feedgrain reserve objective was reached by November 30, 1978, the wheat reserve objective had earlier been reached.

I believe 1978 was a watershed year in agricultural policy. We had record large crops, large carryover stocks, record exports; farm income was the second highest ever. This was an admirable achievement and it deserves emphasis. Over the time of two years, this Administration's policies had moved farm income from low and stagnant levels to levels only matched in times of crop disaster and famine--and had done so in the face of record crops. We believe we have made a beginning toward dealing with the classic "agricultural paradox."

Our 1979 grains programs were designed to maintain the near balance in supply and demand achieved in 1978:

- o A 20 percent set-aside for wheat, a \$2.35 loan rate, and a \$3.40 target price, the same as in 1978.
- o A 10-percent feedgrain set-aside and a 10-percent additional land diversion for corn and sorghum, and a 20-percent set-aside for barley.

Crops in 1979 were generally excellent. Export demand continues strong. And, again, in spite of bumper crops, crop prices remain strong.

- o Net farm income will be up almost \$4 billion, the second highest ever. Crop receipts will be \$11 billion higher and livestock receipts \$7.8 billion higher. These gains are broadly shared across the entire farm sector.
- o Supply and demand are in near-balance. We have removed the set-aside provisions for the 1980 programs.

There are two major points I want to emphasize from this brief recounting of the past three years. The first is that the economic situation in agriculture that was inherited by the Carter Administration was a disastrous one. The second point is that the cooperative efforts of the Congress and the Carter Administration have drastically changed the situation for grain farmers. We can readily see from the estimates that the net per acre returns after deducting short-term costs have increased--dramatically.

Returns from Crop Production--1976-1979

	1976	1977	1978	1979	Percent change 1977 to 1979
Wheat					
Gross returns	$75.61	68.97	91.18	127.26	85
Net returns	- .51	-5.23	11.76	33.55	742
Corn					
Gross returns	$187.27	179.39	222.20	269.03	50
Net returns	22.15	6.90	38.53	57.92	739
Sorghum					
Gross returns	93.38	100.65	106.40	150.19	49
Net returns	.01	3.67	1.84	22.85	523
Barley					
Gross returns	92.23	71.38	87.02	103.95	46
Net returns	11.51	-13.51	-4.16	-3.34	75

Farm Policies Since 1930.

I believe that the reserves policy, together with protection from income disasters through target prices is a natural evolution of our income protection policy that began in the early 1930's. From then until the mid 1960's, the primary means for protecting farmers' incomes was price support loans. These were initially established above marketing clearing levels, without restrictions on production. Surpluses accumulated and it was then necessary to adopt production controls--individual marketing quotas and acreage allotments, and amounts of land to be withheld from production. Farmers restricted from producing one crop turned to another. As the supply of that crop became excessive and had to be restricted, farmers would then turn to still another. The high supports distorted price signals and farmers produced for the farm programs rather than for the market.

While the price supports did offer price stability, they were unsuccessful in protecting against disaster. When a farmer had nothing to sell because of a crop failure, he received no support. Allotments and bases were rigid, and producers often planted to protect their base. Adjustments in production patterns that would have been profitable were not made. Crops for which producers had no allotment or base were ineligible for any income protection.

The high support levels also allowed foreign competitors to consistently under-sell the United States in world markets and we became a supplier of last resort to many commodities.

By the early 1960's, the high price supports and rigid programs led to huge government-held stocks. In an effort to make the programs more responsive to market conditions, programs to supplement the price support loans with so-called "price support payments" for certain commodities produced under quotas or allotments were first initiated. This was the first time market price and producer income supports were separated. Since then, the programs have gradually become less rigid.

The Agricultural Act of 1970 included the set-aside concept. It was designed to reduce the capacity of the entire agricultural plant, rather than specific commodities and to allow farmers the freedom to decide what to grow. The shift from program restrictions and toward greater reliance on market signals to guide producers continued. Price and income supports were fully separated in the Agriculture and Consumer Protection Act of 1973.

The dual support level concept has long been debated and was proposed by Secretary of Agriculture Charles Brannan in 1949. Target prices would provide income support and protect farmers from economic disaster when atypically low prices occur. However, there is no evidence that target prices were ever intended to be an annual guaranteed income program or to cover total costs of production and a full return to land. They were intended to protect producers from the consequences of disaster level prices for these periods when supplies exceed market requirements. Loan prices were established at levels that would keep our commodities competitive in world markets.

The 1973 Act initially established target prices for wheat, feedgrains and cotton. The 1975 Rice Production Act extended the concept to that commodity. The 1973 Act adopted a "cost of production" standard as the basis for annual adjustment of target prices instead of parity prices. Lack of adequate data on costs at that time led to the use of a broad-based index of prices for agricultural inputs. To provide a basis for the future, the 1973 Act directed the Secretary to establish current weighted national average costs of production for the major program commodities and dairy. These studies have since become the basis for the refined target prices adopted in the Food and Agriculture Act of 1977.

The initial levels set in the 1973 Act were adjusted each year to reflect changes in <u>variable</u> production costs as measured by the Department's Index of Prices Paid for Production Items, Interest, Taxes, and Wage Rates and changes in the three-year moving average of individual crop yields--the latter a proxy indicator of productivity changes.

This procedure proved to be less than entirely satisfactory. The Index of Prices Paid includes several items with no relevance for crop production (e.g., feed and feeder livestock). Furthermore, it distorted the relationship among crops since it made no allowances for varying rates of change in production costs for the various crops. And, it suffered from the limitation of being a price index rather than a measure of costs.

When the 1977 Act was adopted, the Congress modified the target price system. Target prices for 1978 were based on costs of production for 1975 and 1976--variable, machinery ownership, and general farm overhead costs--including a return to management and a three to four percent return to land on the current price of land.

The 1977 Act further revised the 1973 Act by specifying that the annual adjustments of target price be based on individual commodity production costs, rather than on the production cost index. Labor, management and land costs were taken into account without building in inflationary spirals. The same components of cost were covered for each commodity.

Furthermore, because a comparable level of income support is applied to each, producers of the major crops are treated equitably. And, the target prices do not become planning prices and they do not tend to encourage farmers to plant one crop over another.

The Congress in 1978 further increased the Secretary's flexibility to determine target prices. The Wheat, Feed Grains and Upland Cotton Emergency Assistance Act allows the Secretary, whenever a set-aside is in effect, to increase the target prices by an amount he deems appropriate to compensate producers for participation in the set-aside.

The target price system complements the system of loan prices. Set at a level to keep U.S. farm products competitive in world markets, commodity loans:

- serve as an orderly marketing tool. Farmers can place commodities under loan when crop prices are typically low and obtain necessary cash for current expenses. Loans can be repaid and the commodity sold in the year when prices have strengthened.
- serve as a market of last resort. In the event farmers choose not to redeem their loans, the government, through the Commodity Credit Corporation (CCC), will take the necessary grain at the loan price.

o serve to govern reserve release and call prices for the farmer-owned grain reserve, an increasingly important function.

The Carter Administration's reserve policy is very different from the old ever-normal granary concept, and from previous stocks policies.

Until the farmer-owned reserve was established in April 1977, stocks under CCC ownership could be returned to the market whenever prices rose slightly above (105 to 115 percent) the loan level. When stocks were large, this resale policy left little room for upward movement of market prices.

In times when CCC accumulated excessive amounts of grain, farmers would be offered "reseal" programs--extensions of their original loans, with payments for storing the commodities during the extended period. The loan extensions and storage payments are features common to the present farmer-owned reserve. But, there is a vital difference--grain under reseal was not effectively isolated from the market as it is under the farmer-owned reserve. Under previous programs, the grain was isolated from the market only when the government held it, and then the sales policy only provided a 5 to 15 percent margin for price increases.

Reserve programs complement the price and income support programs. The target price program provides producers with cash assistance in years in which the market price may be depressed. The reserve isolates excess supplies from the market and helps to balance supply and demand and provide price strength when needed. Over any intermediate term period, a well managed program of reserves will ensure market prices that provide producers full cost of production plus the profit levels required to bring adequate capital investment in agriculture.

Over the past two years, our reserve has been managed so it could accomplish those goals. Full cost of producing corn and wheat in 1979, with owned land reflecting acquisition prices, was below or between the reserve release price and call level. The wheat reserve was released at \$3.29, and will not be called until prices reach \$4.11. The corn reserve was released at \$2.50, but will not be called until prices reach \$2.80 at the farm.

Because the loan, target price and reserve programs are components of a total program, they have complementary purposes. None of the three works well without the others. Past efforts to support farm income through loan prices above market clearing levels have led to extremely restrictive policies and huge government surpluses. And, there are proposals to support farm income continually and substantially through target prices that cover full cost of production including full returns to management and land at its current price. The Carter Administration continues to oppose such proposals for two reasons.

First, such plans mean essentially administratively established prices and administrative pricing almost always leads to serious resource misallocation. It leads to overproduction of some crops and underproduction of others. It tends to destroy the traditional capital accumulation patterns in agriculture that favor the family farmer who has a number of advantages based on his knowledge, his family labor, and his willingness to diversify. Target prices at full cost of production bring family farms into competition with fugitive capital from pension funds and

speculators who are shielded by the "guaranteed income" of high target prices, but who cannot compete on any other basis. The results are worsened land inflation spirals and serious disruptions in the livestock and dairy economies We have only to look at land prices and the cattle and dairy industries' problems in the mid-1970's for confirmation of that concern.

Second, target price deficiency payments are income transfers paid from the Treasury, and properly subject to public scrutiny and control. It is a political impossibility to maintain target prices for farmers at levels that cover full costs plus returns to land, other capital investments, and management. Target prices at those levels run the constant risk of either market prices that price us out of export markets, or transfer payments at multi-billion dollar levels. In a practical sense, the incentives agriculture must have if it is to have the necessary capital to meet the demands of the 1980's can come only from the market.

Finally, a shift to target prices that cover full cost of production would be a major change in the target price policy the Congress established in 1977. At that time, the Congress considered and rejected the concept of target prices that cover full costs. Because we now have a fully functioning set of reserve programs, the case for target prices that are below full costs is even stronger than it was in 1977.

Disaster Payments.

For several years, we have offered three separate kinds of natural disaster programs. We have a Federal Crop Insurance Program, but it does not attract enough producer participation to make it a viable, nationwide, natural disaster-protection program. The Disaster Payments Program offers free insurance for our six main crops. It is inequitable in its coverage and outlays average about $500 million a year, but considerably more when weather is bad, and less when it is good. And, we have natural disaster loan programs that provide low-interest loans to persons who have crop or livestock-related natural disasters. These programs contain substantial subsidies.

One of the early conclusions of this Administration was that our natural disaster programs were themselves a disaster. The 1977 farm bill extended the disaster payments program for two years as an interim measure, allowing time to develop our proposal for dealing with natural disasters.

After passage of the 1977 farm bill, we undertook an extensive study of natural disaster program options. In April 1978, the Administration proposed a subsidized, all-risk crop insurance program that would replace the current disaster programs at no increase in cost.

The Administration's Subsidized Crop Insurance proposal was submitted to the Congress in mid-1978. The Congress did not take the proposal up in 1978 and it was presented again this year in the same form.

The Senate passed a crop insurance bill in September which is acceptable to the Administration. The Administration has agreed to an amendment that both the subsidized crop insurance program and the disaster payments program would be offered through 1981. Producers would be allowed to choose between them. No producer would be eligible for both.

However, in recent days a number of important supporters of the bill in the House are proposing to re-examine the bill early next year.

The disaster payments program has now expired, However, the Administration will continue to work with Congress to develop an acceptable subsidized crop insurance bill.

Mr. Chairman--members of the Committee--considering the factors which we have just reviewed, the Administration recommends the Committee:

- o make no change in 1979 target prices;
- o approve an adjustment in target prices for the 1980 crops to levels that will approximate short-term costs;
- o authorize a change in existing legislation so that 1981 crop target prices can be set by the Secretary at at levels that will approximate short-term costs;
- o approve an extension in disaster payment authorities to April 1, 1980; and
- o amend existing authorities to permit the Secretary to require producers to plant within their Normal Crop Acreage as a condition of eligibility for farm program benefits when there are no set-aside or diversion programs in effect.

These are the elements that are essential to receive Administration support.

Target Prices

Time, events and policies this year have unfolded in a manner that eliminates the need for an adjustment in 1979 target prices. But because production costs have risen rapidly this year and will again in 1980, the case for an adjustment in the target price formula in the 1977 Act for the 1980 crop is persuasive. Also, we believe this is the time to make the necessary adjustments in target price authorities so that we can be sure that 1981 target prices will cover short-term costs, and yet remain consistent with the principles and policies established in the Food and Agriculture Act of 1977.

When H.R. 3398 was introduced early this year, and even when the House Agriculture Committee reported the bill on April 7, the proponents argued that it would have a beneficial impact on participation in the 1979

set-aside programs and that the proposed increase of 7 percent was both consistent with the anti-inflation guidelines of the Administration and below the increase in production costs.

Now, it is obvious that an increase in 1979 target prices could not have any impact on participation in the 1979 set-aside programs. Final decisions on participation in these programs had to be made by producers months ago. Almost all of the 1979 crops have already been harvested.

Market prices for wheat and feed grains are significantly higher now than they were when H.R. 3398 was introduced or reported by the House Committee. And wheat, corn, sorghum and barley yields this year were record high. In fact, the increase in gross returns per acre from 1978 to 1979 will significantly exceed the rate of inflation in the general economy. Even after adjusting for payments, it is evident that per acre gross returns for wheat and the major feed grains will increase at a rate considerably in excess of inflation, as follows:

- o Wheat returns--up 29 percent from 1978 to 1979;
- o Corn returns--up about 20 percent from 1978 to 1979;
- o Sorghum returns--up over 30 percent from 1978 to 1979;
- o Barley returns--up about 17 percent from 1978 to 1979.

Adjusting 1979 target prices would also be inequitable. Those who decided not to participate in the 1979 programs could now do nothing to become eligible. Changes in program provisions after the fact--and the 1979 target prices for wheat and feed grains were announced more than a year ago--undermines the credibility of government farm programs. While wheat prices have increased enough so that no deficiency payments would be made even at $3.63 a bushel, and corn prices for the first five months of

the 1979 marketing year are likely to average near $2.35 a bushel, the barley and grain sorghum producers who decided to participate in the programs would obtain a higher payment than under the program as originally announced.

This, we believe, would be grossly unfair to those who decided not to participate. About 43, 55, and 23 percent of the barley, sorghum and corn acreage was in the 1979 programs. It is obvious that more producers decided not to participate than decided to participate. Furthermore, an increase in 1979 target prices would place an unjustified burden upon our taxpayers. It could cost as much as $194 million. This increase in outlays, given the sharp increase in gross returns, and at a time when inflation is a major problem, simply cannot be justified.

Finally, as long as target price adjustments are based on sound economic criteria, they can be both effective and credible. To be effective, they must provide a level of return adequate to cover costs most farmers cannot postpone. To be credible, they must reflect changes in productivity so that consumers share those benefits. The Food and Agriculture Act of 1977 explicitly linked future adjustments in target prices to changes in production costs, after taking into account changes in productivity. By increasing 1979 target prices by a single index that does not reflect either cost or productivity, that important principle would be broken and could be lost forever.

We are, however, concerned over the level of 1980 target prices that result from the formula in the 1977 Act. As previously stated, production costs rose very rapidly in 1979, and another big increase will take place in 1980.

According to the 1977 Act formula, the 1980 target prices for wheat, corn, sorghum and barley will be about \$3.06, \$2.08, \$2.46 and \$2.35 a bushel.

This formula, you will recall, adjusts the target prices from one year to the next by the change in costs after adjusting for changes in yields. The 1980 target prices are the 1979 prices adjusted by the change from 1977 to 1979 in costs per planted acre after accounting for the change in planted acre yields from 1977 to 1979.

And although costs per planted acre increased sharply from 1977 to 1979, so did yields per planted acre. The result is only small changes in 1980 target prices based on the formula in the 1977 Act.

If we could be assured that yields per planted acre would again increase sharply in 1980 we would not need to be concerned over the formula target prices. And while no one knows what yields will be in 1980, the odds clearly are in favor of national average yields below the exceptional ones observed in 1979. If this happens, it is clear that the 1980 target prices will be well below the level that would permit most producers to cover the costs they cannot postpone. We believe that it is fully consistent with the principles and policies specified in the Food and Agriculture Act of 1977 that target prices cover such costs.

The target prices are a means of income support, protecting farmers from economic disaster when atypically low prices occur. They are to act as a safety net, protecting producers from the consequences of disaster level prices when supplies are in excess of market requirements. However, target prices are not and were never intended to be a guaranteed income program or to cover total costs of production including a full return to land based upon current land prices.

Our reserve policies are the first line of defense against the price depressing effects of crops in excess of current year requirements. Appropriate loan levels are critical to an effective reserve program. The set-aside and diversion program are the second line of defense. The third line of defense, target prices, provides the economic safety net farmers need when all else fails. The effectiveness of this policy has been demonstrated repeatedly since it was established in 1977 and will continue to be demonstrated in the future.

The key question is what target price levels are necessary in 1980 to permit producers to cover short-run production costs. Unfortunately, that question cannot be answered with precision in the fall of 1979. We do have projections of per acre costs for each of the target price commodities that appear to us to be in the ballpark. We know costs will be significantly higher in 1980 than in 1979. But we have no way of knowing what the yields will be in 1980.

In these circumstances, the ideal amendment to existing authorities would be a simple one that directs the Secretary to establish 1980 crop target prices at levels not less than those necessary to cover those costs producers cannot postpone. Such an amendment would be entirely appropriate for both the 1980 and 1981 crops.

Given our cost estimates for 1980, and combining those with projected yields that are below those observed in 1979, it appears 1980 target prices of around \$3.50 for wheat, \$2.35 for corn, \$2.50 for sorghum, and \$2.55 for barley would be appropriate. These prices are close to those in H.R. 3398 for 1979, and the Administration would accept an amendment that makes the adjusted target price level of

H.R. 3398 applicable for 1980--not for 1979--provided the target price for wheat is established at $3.50 instead of $3.63.

We believe it essential that the Committee amend the 1977 Act authorities for target prices to require the Secretary to establish 1981 target prices at levels which approximate short-term costs. We would be pleased to work with the Committee staff to develop appropriate language.

In summary, the Administration will accept legislation which:

- o leaves 1979 target prices at current levels;
- o establishes 1980 target prices approximating short-term costs;
- o is consistent with the already-established concept of adjusting target prices on the basis of changes in yields and production costs.
- o provides new authorities for 1981 crop target prices, the final year covered by the 1977 Act, at levels that approximate short-term costs.

None of the measures now being considered by the Congress meets these tests. Legislation not meeting these criteria is not acceptible to the Administration.

Disaster Payments

The 1977 Act extended the disaster payments program for two years as an interim measure, allowing time to develop our proposal for dealing with natural disasters. The Senate has passed a crop insurance bill that is generally acceptable to the Administration.

However, in recent days a number of important supporters of the bill in the House are proposing to re-examine the bill early next year. The disaster payments program has now expired, but the Administration cannot accept legislation that extends the program beyond a brief period to permit the Congress to pass a subsidized crop insurance bill. We will, however,

accept an amendment to the 1977 Act that extends the disaster payment authorities to April 1, 1980.

Normal Crop Acreage

The Food and Agriculture Act of 1977 authorizes the Secretary to require producers to plant within their normal crop acreage as a condition of eligibility for farm program benefits when there are set-aside or diversion programs in effect.

It has become evident this year that such a provision is even more important in years when there are no set-aside or diversion programs. Such is the case for 1980, and therefore the Administration would support an amendment that would permit the Secretary to require producers to plant in their normal crop acreage as a condition of eligibility for farm program benefits when there are no set-aside or diversion programs in effect.

Mr. Chairman--members of the Committee--I will try to respond to your questions. Thank you.

Quantities and prices of selected crops in the farmer-owned reserve, by crop, United States, September 1977 - October 1979 1/

Year Month	Wheat		Corn		Sorghum		Barley	
	Quantity mil. bu.	Price dol/bu.	Quantity mil. bu.	Price dol/bu.	Quantity mil. cwt.	Price dol/cwt.	Quantity mil. bu.	Price dol/bu.
1977								
Sept.	14.6	2.16						
Oct.	21.7	2.30						
Nov.	35.6	2.46						
Dec.	55.8	2.47						
1978								
Jan.	75.6	2.53						
Feb.	91.5	2.59	.9	2.03	.4	3.20	.9	1.98
Mar.	142.6	2.67	3.0	2.15	.7	3.37	2.2	1.89
Apr.	234.4	2.82	6.9	2.24	1.4	3.62	13.5	1.93
May	333.5	2.82	51.3	2.29	3.3	3.87	22.5	2.15
June	349.1	2.81	90.2	2.28	4.7	3.64	24.2	2.04
July	367.0	2.81	114.1	2.16	9.3	3.50	25.6	1.84
Aug.	384.0	2.88	167.8	2.01	13.2	3.37	28.7	1.87
Sept.	396.2	2.92	256.8	1.98	21.8	3.23	31.4	1.84
Oct.	400.4	2.99	386.0	1.97	33.9	3.36	33.4	1.88
Nov.	405.7	3.04	520.6	2.02	40.3	3.44	36.2	1.92
Dec.	407.8	3.01	658.0	2.09	42.3	3.63	36.8	1.89
1979								
Jan.	411.5	2.99	726.0	2.11	43.3	3.54	38.4	1.95
Feb.	411.2	2.99	733.0	2.18	43.3	3.55	38.9	1.87
Mar.	411.3	2.97	735.4	2.22	43.3	3.57	39.3	1.89
Apr.								
May								
June	361.3	3.72	710.0	2.49	41.1	4.30	39.0	2.30
July	291.7	3.89	682.6	2.64	34.3	4.46	38.4	2.22
Aug.	264.9	3.74	586.3	2.54	28.9	4.27	34.2	2.23
Sept.	255.9	3.87	552.0	2.51	27.3	4.24	31.5	2.36
Oct.	248.0	3.90	535.0	2.42	26.7	4.03	31.0	2.34

1/ Quantities in the reserve are middle of the month telephone reports, generally between the 13th and the 18th of the month.

Prices are ESCS monthly average prices.

Government Outlays -- Fiscal Year 1981
(1980/81 Crop Year)

Item	Current Program	7% increase in 1979 targets	7% increase with NCA	14% increase in 1979 targets	14% increase with NCA
		($ millions)			
Deficiency payments					
Feedgrains	--	114	91	499	307
Wheat	--	179	97	769	599
Total	--	293	188	1,268	906
Reserve storage					
Feedgrains	146	151	149	156	153
Wheat	82	83	83	83	79
Total	228	234	232	239	232
Net Loan and Inventory					
Feedgrains	+403	+365	+385	+290	+380
Wheat	238	250	240	250	200
Total	+165	+115	+145	+ 40	+180
Total government outlays excluding disaster payments:					
Feedgrains	+257	+100	+145	365	80
Wheat	320	512	420	1,102	878
Total	63	412	275	1,467	958
Disaster payments for wheat and feedgrains extended 6 months	50	50	50	50	50
Total outlays including 6-month extension	113	462	325	1,517	1,008
Disaster payments for wheat and feedgrains extended entire crop years	392	448	387	479	449
Total outlays including 12-month extension	455	860	662	1,948	1,407